

# Alphabet Soup

Part I

- **GDP (gross domestic product):** the total value of all final goods and services produced in an economy in a year.
- **$GDP = C + I + G + X - M$ :** Consumption + Investment + Government + eXports - iMports.
- If it's made within a country's borders, it's counted in that country's GDP regardless of who owns the company.

- How is GDP measured?
  - *Output method*: calculated by summing all of the value added by all the firms in an economy (the cost of inputs are deducted).
  - *Income method*: measures the value of all the incomes in the economy.
  - *Expenditure method*: calculated by summing the spending all the different sectors in the economy.
    - This is the method which is usually used.

- **GNP (gross national product) / GNI (gross national income):** GDP plus income earned from assets abroad minus income paid to foreign assets operating domestically (or GDP + net property income from abroad).
- GNP / GNI accounts for all of the production of a country's firms regardless of where they are located in the world.

- **NNI (net national income):** GNI minus depreciation.
- Depreciation is when the capital stock loses value over time due to wear and tear, damage, or changes in technology.

- **nominal  $X$** : value of  $X$  at current prices.
- **real  $X$** : nominal  $X$  adjusted for inflation.
- **per capita  $X$** :  $X$  divided by population.

- **green GDP:** GDP - environmental costs of production

- **UNDP (United Nations Development Program):** “UNDP is the UN's global development network, an organization advocating for change and connecting countries to knowledge, experience and resources to help people build a better life. We are on the ground in 166 countries, working with them on their own solutions to global and national development challenges.”



- **HDI (human development index):** includes data on the three basic goals of development:
  - health – life expectancy
  - education – adult literacy rate, and primary, secondary, tertiary school enrollment
  - standard of living – GDP per capita [converted at PPP US\$ (see below)]

- The data is combined to create a value between 0 and 1, with 1 being the best.
  - High human development = 0.800 and above
  - Medium human development = 0.500–0.799
  - Low human development = less than 0.500

- **PPP (purchasing power parity) exchange rate:** takes into account the local buying power (or purchasing power) of the currency.
- For example, a dollar spent in China will get you more stuff than a dollar spent in the US because stuff doesn't cost as much in China.

## Big Mac index

Local currency under (-)/ over (+) valuation against the dollar, %



\* At market exchange rate (January 5th)

Sources: McDonald's; *The Economist*

† Weighted average of member countries. ‡ Average of four cities



## Working time needed to buy a Big Mac\*

March 2009, minutes



Source: UBS

\*For worker earning average net wage weighted across 14 professions